BELLSOUTH CORPORATION
Docket No. 2001-65-C

S. C. PUBLIC SERVICE COMMISSION
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UTILITIES DEPARTMENT

DIRECT TESTIMONY
OF
JAMES E. SPEARMAN

RESEARCH DEPARTMENT

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

MAY 30, 2001

Q Would you please state for the record your name, business address and position with the Public Service Commission of South Carolina?

A My name is James E. Spearman. My business address is 101 Executive Center Drive, Columbia, SC. I am employed by the Public Service Commission of South Carolina as Research & Planning Administrator.

Q Please summarize your educational background and professional experience.

A I graduated from the Pennsylvania State University with a Bachelor of Science in Mineral Economics and from the Darden School of the University of Virginia with a Master of Business Administration. I received a Doctor of Philosophy in Resource Economics from West Virginia University with specialization areas in Regional Economics and Trade and Development.

My professional experience includes being a faculty member at the University of South Carolina-Lancaster and Erskine College where I taught a variety of economics and business courses. I also taught economics courses as an adjunct professor in the Graduate Business Program of Morehead State University. My experience also includes employment as an Economist at the Federal Highway Administration, as a consultant at Foster Associates, Inc., and as a Senior Economist at Ashland Inc. I joined the Research Department of the Public Service Commission in October of 1990.

Q What is the purpose of your testimony?

A The purpose of my testimony is to determine if it is reasonable for BellSouth to use 11.25% as its cost of capital when establishing the prices it charges for interconnection services, unbundled network elements and other related elements and services.

Q What methodology was used to develop an estimate of BellSouth's cost of capital?

A Three components are necessary to estimate the cost of capital; the capital structure, the cost of equity or return-on-equity, and the cost of debt. Information provided in BellSouth's 2000 Annual Report and SEC Form 10-K are used to determine the cost of debt. The Discounted Cash Flow Model (DCF) and the Capital Asset Pricing Model (CAPM) analyses were used to estimate the cost of equity or return-on-equity appropriate for BellSouth. The appropriate capital structure was determined through analyses of BellSouth's historic and projected capital structure and the capital structures of a sample group of telecommunications companies.

Q How did you estimate the cost of equity or return-on-equity for BellSouth?

A As previously stated, I applied a Discounted Cash Flow (DCF) analyses and a Capital Asset Pricing Model (CAPM) analyses. Both the DCF and CAPM analyses are widely used and accepted in rate-making proceedings as conforming to the requirements set forth in the Hope Case and are well documented in finance literature. I applied these models to BellSouth and a group of telecommunications companies for comparison purposes. Ideally, I

would like to determine the cost of capital as it applies to providing local service only. However, there are virtually no publicly traded telecommunications companies that limit themselves to providing only local service.

Q Which companies did you select for comparison purposes and how do they compare to BellSouth?

A The companies I selected are ALLTEL, CenturyTel, Inc., Citizens Communications, SBC Communications, Sprint Corp., Telephone & Data Systems, Inc., Verizon Communications, and WorldCom, Inc. SBC Communications and Verizon Communications, along with BellSouth, are the only remaining Bell Regional Operating Companies formed by the break up of AT&T in 1984. All of the companies provide local service, and most of the companies provide wireless service and internet access. Six companies provide long-distance service, and six companies have international operations. It is my opinion that companies in the same industry provide the most direct comparisons.

Exhibit (JES-1) shows financial highlights for BellSouth for the period 1996-2000. Operating revenues increased from $19,040 million in 1996 to $26,151 million in 2000 for a compound growth rate of 8.26%. Local service revenues increased by a compound annual rate of 8.65% from $8,082 million in 1996 to $11,262 million in 2000. Total wireline communications revenues did not keep pace with the growth in total operating revenues declining from 76.8% of operating revenues in 1996 to 69.1% of operating revenues in 2000.

Slower growth in network access and other wireline revenues and a decrease in long distance revenues caused the overall decline in wireline revenues as a percent of total operating revenues. The lowering of access rates and increased competition for intraLATA long-distance service probably contributed to the slower growth rate in these wireline services. BellSouth's growth in net income was higher than its growth in operating revenues. Net income grew at a compound annual rate of 10.19% from $2,863 million in 1996 to $4,220 million in 2000. Earnings per share grew even faster from $1.44 in 1996 to $2.23 in 2000 for a compound annual growth rate of 11.55%. Dividend growth lagged far behind, increasing by a compound annual growth rate of only 1.36% from $0.72 in 1996 to $0.76 in 2000. BellSouth's return on average common equity increased from 22.4% in 1996 to 26.0% in 2000. The capital structure of BellSouth became more highly leveraged during the 1996-2000 period. Long-term debt increased from 38.0% of total capitalization in 1996 to 42.4% in 2000 with a corresponding reduction in common equity from 62.0% in 1996 to 57.6% in 2000.

Financial data for the year 2000 for the telecommunications comparison companies are shown in Exhibit (JES-2). As indicated by the data, this group of companies is a mix of quite large companies such as Verizon and quite small companies such as Citizens Communications. Revenues range from $1,802.4 million to $64,332.0 million. Net income ranges from $22.2 million to $7,962.0 million. Earnings per share range from $0.11 to $2.91 while dividends per share range from 0.00% to 1.54. The dividend payout ratios

range from 0.00% to 52.92%. Returns on shareholder equity range from nearly zero to 29.5%. No single company is closely comparable to BellSouth. The group averages are more closely comparable to BellSouth except for net income and market capitalization. Also, the comparison companies provide a diversity of telecommunications services and operations in which BellSouth would logically be included.

Exhibit (JES-3) shows the Standard & Poor's stock and bond ratings of the comparison companies. Stock ratings range from a low of "B" to a high of "A". BellSouth has a stock rating of "A-." Two companies have stock ratings higher than BellSouth, and three companies have stock ratings equal to BellSouth. Three companies have a lower stock rating than BellSouth. Bond ratings range from a low of "BBB" to a high of "AA-." Both SBC Communications and BellSouth have bond ratings of "AA-." All the other companies have lower bond ratings.

Q How did you determine the appropriate capital structure?

Exhibit (JES-4) shows the December 31, 2000 capital structure for the comparison companies and the projected capital structures for the 2004-2006 period. Again there is diversity among the companies. On December 31, 2000, Sprint Corp. had a capital structure consisting of 22.0% long-term debt and 78.0% common equity while Citizens Communications had a capital structure consisting of 61.4% long-term debt and 34.5% common equity. The December 31, 2000 group average capital structure of 42.6% long-term debt and 55.2% common equity is very similar to BellSouth's capital structure of

42.4% long-term debt and 57.6% common equity. BellSouth's average capital structure for the 1996-2000 period consisted of 37.2% long-term debt and 62.8% common equity. During this 5-year period, it was only in the year 2000 that BellSouth's common equity fell below 61.9% of capitalization. For the 2004-2006 time period the average capital structure for the comparison companies is 34.0% long-term debt and 64.5% common equity. The projected capital structure for BellSouth consists of 39.0% long-term debt and 61.0% common equity. In my analyses I use two capital structure to provide a range in which BellSouth's capital structure is likely to fall over the next several years. One capital structure consists of 40% long-term debt and 60% common equity, and the other capital structure consists of 35% long-term debt and 65% common equity.

Q Based on the Discounted Cash Flow (DCF) method, what is your estimate of the cost of equity for BellSouth?

A The DCF methodology requires two components, a dividend yield and an expected growth rate. For investors as a whole the market value of common stock is equal to the present value of the expected stream of future dividends. Therefore, one must know the current dividend yield and its expected growth in order to utilize the basic annual DCF model:

$$R_e = (D_1/P_o)+G$$

Where R_e = return on equity

D_1 = next annual dividend

P_0 = current market price of common stock

G = growth rate.

Assuming the market is efficient, the current dividend yield should reflect the best judgment of investors concerning the value of a stock. In essence, this assumption means that the current dividend (D_0) and the current market price (P_0) reflect the best estimates of the future of the company at the present time. This also allows for the current dividend (D_0) to be substituted for the next dividend (D_1) when utilizing the DCF model.

Exhibit(JES-5) shows the dividend yields for each comparison company based on the May 18, 2001 dividend and the February-April 2001 end-of-month average stock price and the May 18, 2001 stock price. The average dividend yield based on the February-April 2001 end-of-month average price is 1.56% compared to a dividend yield of 1.51% when using the May 18, 2001 stock price. Dividend yields vary widely for the individual companies from a low of 0.00% to a high of 3.00%. The corresponding dividend yields for BellSouth were 1.83% and 1.80% respectively. BellSouth's dividend yields are consistent with those of the comparison group. With dividend yields of 3.00% or less, I would not expect investors to be purchasing the common stock of these companies for dividend income.

Exhibit (JES-6) shows projected growth rates for telecommunications comparison companies. Both dividend growth and earnings growth have been utilized in this analysis. Although the DCF model is predicated on dividend growth, there is disagreement concerning whether dividend growth rates or

earnings growth rates are reflective of investor expectations. Over the long term, dividends cannot grow faster than earnings. Thus, earnings growth will place an upper limit on dividend growth in the long run. I have utilized both growth rates in my analysis. The results using dividend growth provide a floor on the return-on-equity expectations while the results using earnings growth produce a ceiling on the return-on-equity expectations.

Three public sources of growth forecasts have been utilized. The Value Line Investment Survey is widely distributed and readily available to many investors either by subscription or at libraries. Merrill Lynch is one of the largest brokerage firms and provides its many clients with forecasts. Quicken forecasts are provided by Zacks and are a composite of many analysts forecasts. It is available at no cost to anyone having access to the internet.

Ideally, a very long-term growth is desired since the theoretical DCF model values stock over its lifetime, and utility stocks have historically been considered safe income stocks which investors tended to hold for long periods. However, investors usually do not have published sources for very long-term forecasts and often buy and sell stocks over a period of a few years. The holding periods for utility stocks may also shorten as the industry restructures in accordance with the Telecommunications Act of 1996. Therefore, it is not unreasonable to expect that investors would rely on five-year growth forecasts when evaluating a stock.

It is apparent from the forecasts that the investment community does not expect dividend growth to keep pace with earnings growth. The average dividend growth rates for the comparison companies ranged between 2.7% and 3.1%. For BellSouth the projected dividend growth rates were 2.0% and 4.0%. The average projected earnings growth rates for the comparison companies were 19.8% by Value Line, 9.8% by Merrill Lynch, and 14.1% by Quicken (Zacks). If the abnormally high growth rate for Citizens Communications is excluded, the average Value Line earnings growth drops to 12.6%. The corresponding earnings growth rates for BellSouth were 13.5%, 14.0%, and 10.8%.

The expected return on equity estimates based on the annual Discounted Cash Flow model are shown in Exhibit(JES-7). Average estimated expected return on equity for the comparison companies ranges from 4.25% to 4.71% using dividend per share growth and from 11.46% to 21.67% using earnings per share growth. If Citizens Communications is excluded, the return-on-equity calculated using Value Line earnings growth drops to between 14.30% and 14.36%. For individual companies the return-on-equity estimates range from 0.00% to 11.28% using dividend growth and from 8.42% to 63.00% using earnings growth. Returns-on-equity for BellSouth range from 3.84% to 5.90% using dividend growth and from 12.79% to 16.09% using earnings growth. The following table summarizes the average expected return on equity for each source of growth forecast.

Comparison Companies

DPS Growth	Return-on-Equity
Value Line	4.66% - 4.71%
Merrill Lynch	4.25% - 4.30%
EPS Growth	
Value Line	21.61% - 21.67%
VL Ex. Citizens	14.30% - 14.36%
Merrill Lynch	11.46% - 11.51%
Quicken(Zacks)	15.82% - 15.88%

BellSouth

DPS Growth	Return-on-Equity
Value Line	3.84% - 3.87%
Merrill Lynch	5.87% - 5.90%
EPS Growth	
Value Line	15.54% - 15.58%
Merrill Lynch	16.05% - 16.09%
Quicken (Zacks)	12.79% - 12.83%

The very low return-on-equity estimates derived from dividend growth indicate that analysts do not expect the telecommunications companies to reward their investors through large dividend payments. In fact, these return-on-equity estimates approximate the yields on both short-term and long-term government securities which averaged in a general range of 4% to 6% for the February-April 2001 period. The cost of equity should exceed the cost of debt

since the claims of stockholders are subordinate to the claims of debt holders. Thus, the return-on-equity estimates based on dividend growth are unacceptable to investors and must be discounted.

The return-on-equity estimates generated by earnings growth must now become the basis of an appropriate cost of equity using the DCF model. For the comparison companies the average return-on-equity estimates ranged from 11.46% to 15.88%. The corresponding return-on-equity estimates for BellSouth ranged from 12.79% to 16.09%. Based on the DCF model using earnings growth, the cost of equity would fall in a broad range from approximately 11.5% to 16.0%.

Q Based on the Capital Asset Pricing Model (CAPM), what is your estimate of the cost of equity for BellSouth?

A The CAPM is a comparable earnings approach where all of the nondiversifiable (systematic) market risk of a firm which impacts the risk premium is determined relative to the entire market through the beta coefficient. It establishes rate of return estimates in conjunction with the risk-return relationship of the entire market. The return estimates derived through the CAPM are equal to the opportunity costs of an investment in a particular firm, and therefore, are the returns investors would expect from investment in a firm of comparable risk.

None of the components of the Capital Asset Pricing Model, shown below, can be observed directly.

$$R_e = B(R_m - R_f) + R_f$$

Where: R_e = return on equity

B = beta coefficient

R_m = market rate of return

R_f = risk-free rate of return

Theoretically, the beta coefficient (B), the market rate of return (R_m), and the risk-free rate of return (R_f) should reflect values expected over the life of the investment. Investors must rely on historical data and their best estimates of future conditions to determine the value of the components of the CAPM.

Exhibit(JES-8) shows the betas for the past sixty-month period for the comparison companies and BellSouth as reported by Value Line and Merrill Lynch. Both the Value Line betas and the Merrill Lynch betas are adjusted to reflect a perceived long-term tendency for betas to converge toward the market beta of 1.00. Value Line betas are based on the New York Stock Exchange Composite Index and are rounded to 0.00 or 0.05. The Merrill Lynch betas are based on the Standard & Poor's 500 Index and are not rounded. Although these betas are not technically forecasts of future betas, they are related to future expectations. Since investors make decisions based on future expectations, the historical betas reflect the response of the market to the future expectations of the investors during the previous sixty months. The average value of the Value Line betas for the comparison companies is 0.86 compared with an average of 0.83 for the Merrill Lynch betas. The corresponding betas for BellSouth are 0.85 and 0.62, respectively. For the

individual companies the betas range from 0.65 to 1.19. Given that the market as a whole has a beta of 1.00, the values of the Moody's Electric Utility Index betas indicate that the nondiversifiable risk faced by these companies approaches that of the market and, in some cases, exceeds that of the market.

Determining the appropriate rate of return for the market may be the most challenging component of the CAPM. According to Ibbotson Associates, the geometric mean total annual return on large company stocks was 11.0% for the 1926-2000 period. The corresponding arithmetic mean return was 13.0%. The Research Department of the Public Service Commission has calculated a 12.3% geometric mean total return for the Standard & Poor's 500 Index for the 30- year period 1971-2000, and a 14.2% arithmetic mean annual return. Over the past 10 years the growth in the Standard & Poor's 500 index has been substantially higher than in the past. The geometric mean for the 1991-2000 period was 16.1% with an arithmetic mean of 18.2%. It would not be unreasonable for an investor to expect a market return of between approximately 13.0% and 18.0%.

U.S. government securities are generally considered to be the best proxy for the risk-free rate of return. Given the taxing power of the Federal government, there is minimal risk of default on these securities. Many U.S. government securities are subject to inflation risk. However, the Federal government does offer inflation-adjusted long-term savings bonds. Exhibit(JES-9) shows the yields on U.S. government securities as of May 18,

2001 and an end-of-month average for the February-April 2001 period. Historically, the 30-year Treasury Bond was considered the benchmark. The federal government's aggressive effort to shrink its long-term debt in 2000 reduced the supply of 30-year bonds available, and the 10-year Treasury Bond replaced the 30-year bond as the benchmark. Yields on Treasury Bonds have generally been increasing as the Federal Reserve has lowered the discount rate. Federal Reserve Chairman Greenspan has indicated that more reductions in the discount rate are likely. Thus, I would expect the yields on the Treasury Bonds to rise in the future. I have used the May 18, 2001 yield on the 10-year benchmark Treasury Bond in my CAPM analysis since this more closely reflects what I expect for the risk-free rate.

Exhibit(JES-10) shows the results of the Capital Asset Pricing Model analysis using the low and high values of the expected range of market returns. At a market return of 13.0% the average return-on-equity estimates for the comparison companies range from 11.71% to 11.94%. For the individual companies the range is from 10.34% to 14.44%. The corresponding return-on-equity estimates for BellSouth range from 10.11% to 11.86%. At an expected market return of 18.0% the average return-on-equity estimates for the comparison companies ranges from 15.86% to 16.24%. The range for the individual companies is from 13.59% to 20.39%. For BellSouth the return-on-equity estimates range from 13.21% to 16.11% Based on the CAPM, the cost of equity would fall in the range of approximately 10.00% to 16.25%.

Q Can or should the fairly wide ranges in the estimated cost of equity be narrowed?

A If the estimates of cost of equity are to be useful for making decisions, I believe that the ranges should be narrowed as much as possible. Unfortunately, narrowing the range of estimates becomes largely subjective, and depends on the analyst's interpretation of impact of many factors on the cost of capital. The following table shows the return-on-equity ranges produced by the DCF and CAPM analyses.

	DCF	CAPM
Comparison group	11.46% - 15.88%	11.71% - 16.24%
BellSouth	12.79% - 16.09%	10.11% - 16.11%

Note that I have already determined that the estimates produced by the DCF model using dividend growth were unreasonably low. Also, I have excluded Citizens Communications because its projected earnings growth rate is so high compared to all other growth rate projects. Including this anomaly would skew the results.

For the comparison companies the return-on-equity estimates produced by the models overlap in the range of 11.71% to 15.88%. For BellSouth the estimates overlap in the range of 12.79% to 16.09%. The comparison companies and BellSouth overlap in the range of 12.79% to 15.88%. Considering only those return-on-equity estimates that overlap, I can reduce the cost of equity to the approximate range of 12.75% to 15.75%.

The fact that both models produce estimates in this range provides an objective basis for reducing the range of return-on-equity estimates.

Further reductions will require much more subjective judgements. Most of these companies have wireless operations, international operations, and internet operations, and long-distance operations. These operations tend to be unregulated, capital intensive, and highly competitive. I would expect that these operations are of higher risk than local service operations and therefore, require a higher return-on-equity. Although the intent of the Telecommunications Act of 1996 is to bring competition into the local market, the reality is that local services still face less competition than wireless, long-distance, internet, or international operations. Facilities-based competition in the local market has been slower to develop than competition through resale which still provides the incumbent local carrier a source of revenue. Therefore, the high end of the return-on-equity range may exceed the return-on-equity required for the provision of local service by an incumbent carrier. Although competition in the local market has been fairly slow to develop, it is progressing. There are numerous resellers and more facilities-based competitors are entering the local market. Thus, the return-on-equity estimates at the low end of the range may understate the required return-on-equity. I would consider a cost of equity in the midrange of 13.5% to 14.5% to be most appropriate.

Q Did you make any adjustment to your estimated cost of equity to issuance costs for common stock?

A No, I did not. It is the policy of this Commission to include an issuance adjustment only when a company recently issued or plans to issue additional stock in the near future. Commission Order No. 88-864, dated August 29, 1988; Order No. 88-1211, dated December 1, 1988; and Order No. 91-362, dated May 28, 1991, clearly state the policy of this Commission concerning issuance adjustments. I have no knowledge that BellSouth intends to issue and sell new common shares to the public in the near future.

Q What did you determine was the appropriate cost of debt for BellSouth?

A Based on information provided in BellSouth's 2000 Annual Report and SEC Form 10-K, I determined that BellSouth's cost of debt in 2000 averaged approximately 7.0%. BellSouth also provided projections of the amount of fixed-rate and variable-rate debt maturing in the future along with corresponding interest rates. The future projected cost of debt also averaged about 7.0% with interest rates on long-term debt ranging from 4.38% to 8.25%.

I also performed a risk premium analysis to determine the appropriate cost of debt. As shown in Exhibit(JES-11), the risk premium for "AA" rated utility bonds over long-term government bonds averaged 1.32% for the 30-year period 1971-2000. Adding this premium to the 5.76% yield on the 30-year Treasury Bond of May 18, 2001 results in a 7.08% cost of long-term

debt. Thus, a cost of long-term debt for BellSouth of approximately 7.0% is reasonable.

Q Based on your analyses of the capital structure, cost of equity, and cost of debt, what is the cost of capital for BellSouth?

A Exhibit(JES-12) shows the cost of capital applicable to BellSouth. The cost of capital falls in the range of 10.9% to 11.9% depending on the capital structure and the cost of equity. Earlier in my analyses I determined that the appropriate capital structure would consist of long-term debt of 35.0% to 40.0% and common equity of 60.0% to 65%. The cost of equity was determined to be in the 13.5% to 14.5% range. The cost of long-term debt was determined to be approximately 7.0%. Unless significant changes occur in economic conditions or in the telecommunications industry, I would expect BellSouth to have a cost of capital within the range of 10.9% to 11.9%.

Q Is it appropriate for BellSouth to use 11.25% as its cost of capital in determining the prices it charges for interconnection services, unbundled network elements, and other related elements and services?

A Yes. My analyses produced a cost of capital of 10.9% to 11.9%. The 11.25% cost of capital used by BellSouth falls within my appropriate range.

Q Does this conclude your testimony?

A Yes.

BELLSOUTH CORPORATION
Docket No. 2001-65-C

EXHIBITS
OF
JAMES E. SPEARMAN

RESEARCH DEPARTMENT

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

MAY 30, 2001

BELLSOUTH FINANCIAL HIGHLIGHTS
(Millions of Dollars)

Revenues	1996	1997	1998	1999	2000	Annual Growth
Wireline communications						
Local service	8,082	8,499	10,033	10,887	11,262	8.65%
Network access	4,365	4,483	4,632	4,761	4,885	2.85%
Long distance	794	734	713	608	523	-9.91%
Other wireline	1,383	944	1,023	1,198	1,393	0.18%
Domestic wireless	2,204	2,581	2,723	3,191	2,714	5.34%
International operations	547	948	1,995	2,289	2,771	50.02%
Advertsing and publishing	1,651	1,837	1,891	2,010	2,178	7.17%
Other services	14	17	113	280	425	134.73%
Total operating revenues	19,040	20,561	23,123	25,224	26,151	8.26%
Net income	2,863	3,261	3,527	3,448	4,220	10.19%
Earnings per share - diluted	1.44	1.64	1.78	1.80	2.23	11.55%
Dividends per share	0.72	0.72	0.73	0.76	0.76	1.36%
Book value per share	6.68	7.65	8.26	7.87	9.03	7.03%
Return on average common equity	22.4%	22.8%	22.3%	24.0%	26.0%	3.80%
Capital structure						
Long-term debt	8,116	7,348	8,715	9,113	12,463	11.32%
Common equity	13,249	15,165	16,110	14,815	16,912	6.29%

Sources: BellSouth Annual Reports, 1998, 1999, 2000

TELECOMMUNICATIONS INDUSTRY

2000 FINANCIAL DATA

Company	Return on shareholder equity (%)	Total revenue ($ Millions)	Net Income ($ Millions)	Earnings per share ($)	Dividends per share ($)	Dividend payout ratio (%)	Market capitalization ($ Billions)
ALLTEL Corp.	16.8	7,067.0	857.6	2.70	1.28	47.41	16.4
CenturyTel Inc.	10.8	1,845.9	219.9	1.55	0.19	12.26	4.0
Citizens Communications	NMF	1,802.4	22.2	0.11	0.00	0.00	3.5
SBC Communications	25.4	53,313.0	7,746.0	2.26	1.01	44.69	142.4
Sprint Corp.	13.1	17,688.0	1,613.0	1.81	0.50	27.62	19.6
Telephone & Data Systems, Inc.	4.0	2,326.9	165.0	2.74	0.50	18.25	5.4
Verizon Communications	29.5	64,332.0	7,962.0	2.91	1.54	52.92	138.0
WorldCom, Inc.	7.6	39,090.0	4,294.0	1.45	0.00	0.00	54.2
Average	15.3	23,433.2	2,860.0	1.94	0.63	32.32	47.94
BellSouth Corp.	26.0	26,151.0	4,220.0	2.23	0.76	34.08	75.0

Sources: Value Line Investment Survey, April 6, 2001
BellSouth Annual Report, 2000

Exhibit(JES-2)

TELECOMMUNICATIONS INDUSTRY
STANDARD & POOR'S RATINGS

Company	Stock Rating	Bond Rating
ALLTEL Corp.	A	A
CenturyTel, Inc.	A	BBB+
Citizens Communications	A-	BBB
SBC Communications	A-	AA-
Sprint Corp.	B	BBB+
Telephone & Data Systems, Inc.	A-	A-
Verizon Communications	B+	A+
WorldCom, Inc.	B	BBB+
BellSouth Corp.	A-	AA-

Sources: Standard & Poor's Stock Guide, May 2001
Standard & Poor's Bond Guide, May 2001

TELECOMMUNICATIONS INDUSTRY
CAPITAL STRUCTURE

Company	Actual 12/31/00 Long-term debt (%)	Actual 12/31/00 Preferred stock (%)	Actual 12/31/00 Common equity (%)	Projected 2004-2006 Long-term debt (%)	Projected 2004-2006 Preferred stock (%)	Projected 2004-2006 Common equity (%)
ALLTEL Corp.	47.5	0.0	52.5	38.2	0.0	61.8
CenturyTel, Inc.	59.0	1.9	39.1	30.0	0.0	70.0
Citizens Communications	61.4	4.1	34.5	52.5	3.5	44.0
SBC Communications	33.0	2.1	64.9	23.5	1.0	75.5
Sprint Corp.	22.0	0.0	78.0	27.1	0.0	72.9
Telephone & Data Systems, Inc.	37.0	8.0	55.0	33.0	7.0	60.0
Verizon Communications	54.5	0.0	45.5	43.0	0.0	57.0
WorldCom, Inc.	26.6	1.1	72.3	24.4	0.7	74.9
Average	42.6	2.2	55.2	34.0	1.5	64.5
BellSouth Corp.	42.4	0.0	57.6	39.0	0.0	61.0

Sources: Value Line Investment Survey, April 6, 2001
BellSouth Corp. Annual Report, 2000

Exhibit(JES-4)

TELECOMMUNICATIONS INDUSTRY
DIVIDEND YIELDS

Company	Feb.-Apr. 2001 end-of-month average stock price	May 18, 2001 stock price	May 18, 2001 dividend	Feb.-Apr. 2001 end-of-month average dividend yield	May 18, 2001 dividend yield
ALLTEL Corp.	$53.59	$57.56	$1.32	2.46%	2.29%
CenturyTel Inc.	$28.25	$28.06	$0.20	0.71%	0.71%
Citizens Communications	$13.20	$13.97	$0.00	0.00%	0.00%
SBC Communications	$44.53	$44.52	$1.02	2.29%	2.29%
Sprint Corp.	$21.91	$20.90	$0.50	2.28%	2.39%
Telephone & Data Systems, Inc.	$97.32	$103.25	$0.54	0.55%	0.52%
Verizon Communications	$51.29	$54.06	$1.54	3.00%	2.85%
WorldCom, Inc.	$17.86	$17.70	$0.00	0.00%	0.00%
Average	$40.99	$42.50	$0.64	1.56%	1.51%
BellSouth Corp.	$41.61	$42.11	$0.76	1.83%	1.80%

Source: Wall Street Jornal

Exhibit(JES-5)

TELECOMMUNICATIONS INDUSTRY
PROJECTED GROWTH RATES

Company	5-Year Projected Dividend Growth (%)		5-Year Projected Earnings Growth (%)		
	Value Line	Merrill Lynch	Value Line	Merrill Lynch	Quicken (Zacks)
ALLTEL Corp.	3.0	4.0	14.5	10.0	14.2
CenturyTel Inc.	10.5	NA	12.5	NA	12.7
Citizens Communications	0.0	NA	63.0	NA	13.3
SBC Communications	5.0	4.0	10.0	10.0	12.0
Sprint Corp.	0.0	0.0	6.0	6.0	9.7
Telephone & Data Systems, Inc.	6.0	NA	NA	NA	21.9
Verizon Communications	0.0	NA	17.0	13.0	10.7
WorldCom, Inc.	0.0	NA	15.5	10.0	18.2
Average	3.1	2.7	19.8	9.8	14.1
BellSouth Corp.	2.0	4.0	13.5	14.0	10.8

Sources: Value Line Investment Survey, April 6, 2001
Merrill Lynch Global Research Review, February 2001
Average growth rate of analysts as of May 21 reported by Quicken

TELECOMMUNICATIONS INDUSTRY
ANNUAL DISCOUNTED CASH FLOW MODEL RETURN-ON-EQUITY

COMPANY	Feb.-Apr. 2001 Dividend Yield (%)	May 18, 2001 Dividend Yield (%)	Value Line DPS Growth (%)	Feb.-Apr. 2001 Annual DCF Model ROE (%)	May 18, 2001 Annual DCF Model ROE (%)	Value Line EPS Growth (%)	Feb.-Apr. 2001 Annual DCF Model ROE (%)	May 18, 2001 Annual DCF Model ROE (%)
ALLTEL Corp.	2.46	2.29	3.0	5.53	5.36	14.5	17.32	17.12
CenturyTel Inc.	0.71	0.71	10.5	11.28	11.28	12.5	13.30	13.30
Citizens Comm.	0.00	0.00	0.0	0.00	0.00	63.0	63.00	63.00
SBC Comm.	2.29	2.29	5.0	7.40	7.40	10.0	12.52	12.52
Sprint Corp.	2.28	2.39	0.0	2.28	2.39	6.0	NA	NA
Tele. & Data Sys.	0.55	0.52	6.0	6.58	6.55	NA	NA	NA
Verizon Comm.	3.00	2.85	0.0	3.00	2.85	17.0	20.51	20.33
WorldCom, Inc.	0.00	0.00	0.0	0.00	0.00	15.5	15.50	15.50
Average	1.56	1.51	3.1	4.71	4.66	19.8	21.67	21.61
BellSouth Corp.	1.83	1.80	2.0	3.87	3.84	13.5	15.58	15.54

Exhibit(JES-7)
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TELECOMMUNICATIONS INDUSTRY
ANNUAL DISCOUNTED CASH FLOW MODEL RETURN-ON-EQUITY

COMPANY	Feb.-Apr. 2001 Dividend Yield (%)	May 18, 2001 Dividend Yield (%)	Merrill Lynch DPS Growth (%)	Feb.-Apr. 2001 Annual DCF Model ROE (%)	May 18, 2001 Annual DCF Model ROE (%)	Merrill Lynch EPS Growth (%)	Feb.-Apr. 2001 Annual DCF Model ROE (%)	May 18, 2001 Annual DCF Model ROE (%)
ALLTEL Corp.	2.46	2.29	4.0	6.56	6.38	10.0	12.71	12.52
CenturyTel Inc.	0.71	0.71	NA	NA	NA	NA	NA	NA
Citizens Comm.	0.00	0.00	NA	NA	NA	NA	NA	NA
SBC Comm.	2.29	2.29	4.0	6.38	6.38	10.0	12.52	12.52
Sprint Corp.	2.28	2.39	0.0	2.28	2.39	6.0	8.42	8.53
Tele. & Data Sys.	0.55	0.52	NA	NA	NA	NA	NA	NA
Verizon Comm.	3.00	2.85	NA	NA	NA	13.0	16.39	16.22
WorldCom, Inc.	0.00	0.00	NA	NA	NA	10.0	10.00	10.00
Average	1.56	1.51	2.7	4.30	4.25	9.8	11.51	11.46
BellSouth Corp.	1.83	1.80	4.0	5.90	5.87	14.0	16.09	16.05

TELECOMMUNICATIONS INDUSTRY
ANNUAL DISCOUNTED CASH FLOW MODEL RETURN-ON-EQUITY

COMPANY	Feb.-Apr. 2001 Dividend Yield (%)	May 18, 2001 Dividend Yield (%)	Quicken (ZAKS) DPS Growth (%)	Feb.-Apr. 2001 Annual DCF Model ROE (%)	May 18, 2001 Annual DCF Model ROE (%)
ALLTEL Corp.	2.46	2.29	14.2	17.01	16.82
CenturyTel Inc.	0.71	0.71	12.7	13.50	13.50
Citizens Comm.	0.00	0.00	13.3	13.30	13.30
SBC Comm.	2.29	2.29	12.0	14.56	14.56
Sprint Corp.	2.28	2.39	9.7	12.20	12.32
Tele. & Data Sys.	0.55	0.52	21.9	22.57	22.53
Verizon Comm.	3.00	2.85	10.7	14.02	13.85
WorldCom, Inc.	0.00	0.00	18.2	18.20	18.20
Average	1.56	1.51	14.1	15.88	15.82
BellSouth Corp.	1.83	1.80	10.8	12.83	12.79

TELECOMMUNICATIONS INDUSTRY
BETAS

Company	Value Line beta	Merrill Lynch beta
ALLTEL Corp.	0.85	0.65
CenturyTel Inc.	1.00	NA
Citizens Communications	0.75	NA
SBC Communications	0.85	0.88
Sprint Corp.	0.75	0.69
Telephone & Data Systems, Inc.	0.80	NA
Verizon Communications	NA	0.75
WorldCom, Inc.	1.05	1.19
Average	0.86	0.83
BellSouth Corp.	0.85	0.62

Sources: Value Line Investment Survey, April 6, 2001
Merrill Lynch Global Research Review, February 2001

U.S. GOVERNMENT SECURITY YIELDS

Term	Security	Feb.-Apr. 2001 End-of-Month Average Yield	May 18, 2001 Yield
10-Year	Treasury Bond	5.05%	5.40%
30-Year	Treasury Bond	5.43%	5.76%

Source: Wall Street Journal.

TELECOMMUNICATIONS INDUSTRY
CAPITAL ASSET PRICING MODEL RETURN-ON-EQUITY

COMPANY	Value Line Beta (B)	Market Rate of Return (Rm)	Risk-free Rate of Return (Rf)	Epected Return on Equity (%)
ALLTEL Corp.	0.85	13.0	5.4	11.86
CenturyTel Inc.	1.00	13.0	5.4	13.00
Citizens Communications	0.75	13.0	5.4	11.10
SBC Communications	0.85	13.0	5.4	11.86
Sprint Corp.	0.75	13.0	5.4	11.10
Telephone & Data Systems, Inc.	0.80	13.0	5.4	11.48
Verizon Communications	NA	13.0	5.4	NA
WorldCom, Inc.	1.05	13.0	5.4	13.38
Average	0.86	13.0	5.4	11.94
BellSouth Corp.	0.85	13.0	5.4	11.86

TELECOMMUNICATIONS INDUSTRY
CAPITAL ASSET PRICING MODEL RETUEN-ON-EQUITY

COMPANY	Merrill Lynch Beta (B)	Market Rate of Return (Rm)	Risk-free Rate of Return (Rf)	Epected Return on Equity (%)
ALLTEL Corp.	0.65	13.0	5.4	10.34
CenturyTel Inc.	NA	13.0	5.4	NA
Citizens Communications	NA	13.0	5.4	NA
SBC Communications	0.88	13.0	5.4	12.09
Sprint Corp.	0.69	13.0	5.4	10.64
Telephone & Data Systems, Inc.	NA	13.0	5.4	NA
Verizon Communications	0.75	13.0	5.4	11.10
WorldCom, Inc.	1.19	13.0	5.4	14.44
Average	0.83	13.0	5.4	11.71
BellSouth Corp.	0.62	13.0	5.4	10.11

TELECOMMUNICATIONS INDUSTRY
CAPITAL ASSET PRICING MODEL RETURN-ON-EQUITY

COMPANY	Value Line Beta (B)	Market Rate of Return (Rm)	Risk-free Rate of Return (Rf)	Epected Return on Equity (%)
ALLTEL Corp.	0.85	18.0	5.4	16.11
CenturyTel Inc.	1.00	18.0	5.4	18.00
Citizens Communications	0.75	18.0	5.4	14.85
SBC Communications	0.85	18.0	5.4	16.11
Sprint Corp.	0.75	18.0	5.4	14.85
Telephone & Data Systems, Inc.	0.80	18.0	5.4	15.48
Verizon Communications	NA	18.0	5.4	NA
WorldCom, Inc.	1.05	18.0	5.4	18.63
Average	0.86	18.0	5.4	16.24
BellSouth Corp.	0.85	18.0	5.4	16.11

TELECOMMUNICATIONS INDUSTRY
CAPITAL ASSET PRICING MODEL RETUEN-ON-EQUITY

COMPANY	Merrill Lynch Beta (B)	Market Rate of Return (Rm)	Risk-free Rate of Return (Rf)	Epected Return on Equity (%)
ALLTEL Corp.	0.65	18.0	5.4	13.59
CenturyTel Inc.	NA	18.0	5.4	NA
Citizens Communications	NA	18.0	5.4	NA
SBC Communications	0.88	18.0	5.4	16.49
Sprint Corp.	0.69	18.0	5.4	14.09
Telephone & Data Systems, Inc.	NA	18.0	5.4	NA
Verizon Communications	0.75	18.0	5.4	14.85
WorldCom, Inc.	1.19	18.0	5.4	20.39
Average	0.83	18.0	5.4	15.86
BellSouth Corp.	0.62	18.0	5.4	13.21

"AA" Utility Bond Premium

Year	Moody's "AA" Utility Bond Yield (%)	Long-term Government Bond Yield (%)	"AA" Utility Bond Premium (%)
1971	8.00	5.97	2.03
1972	7.60	5.99	1.61
1973	7.72	7.26	0.46
1974	9.04	7.60	1.44
1975	9.44	8.05	1.39
1976	8.92	7.21	1.71
1977	8.43	8.03	0.40
1978	9.10	8.98	0.12
1979	10.22	10.12	0.10
1980	13.00	11.99	1.01
1981	15.30	13.34	1.96
1982	14.79	10.95	3.84
1983	12.83	11.97	0.86
1984	13.66	11.70	1.96
1985	12.06	9.56	2.50
1986	9.30	7.89	1.41
1987	9.77	9.20	0.57
1988	10.26	9.18	1.08
1989	9.56	8.16	1.40
1990	9.65	8.44	1.21
1991	9.09	7.30	1.79
1992	8.55	7.26	1.29
1993	7.44	6.54	0.90
1994	8.21	7.99	0.22
1995	7.77	6.03	1.74
1996	7.57	6.73	0.84
1997	7.54	6.02	1.52
1998	6.91	5.42	1.49
1999	7.45 (e)	6.82	0.63
2000	7.63 (e)	5.58	2.05
Average			1.32

Sources: Ibbotson & Associates, Stocks, Bonds, Bills, and Inflation, 2001 Yearbook
Mergent, Moody's Public Utility Manual, 1999
Standard & Poor's, Current Statistics, January 2001

BELLSOUTH COST OF CAPITAL

Long-term Debt (%)	Cost of Debt (%)	Common Equity (%)	Cost of Equity (%)	Cost of Capital (%)
40.0	7.0	60.0	13.5	10.9
40.0	7.0	60.0	14.5	11.5
35.0	7.0	65.0	13.5	11.2
35.0	7.0	65.0	14.5	11.9